

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION
OF

CIGNA HEALTHCARE OF UTAH, INC.

OF
SALT LAKE CITY, UTAH

AS OF
December 31, 2004



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March 17, 2006

Honorable D. Kent Michie, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2004, has been made of the financial condition and business affairs of:

CIGNA HEALTHCARE OF UTAH, INC.
Salt Lake City, Utah

a health maintenance organization (HMO), hereinafter referred to as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last financial examination of the Organization was conducted as of December 31, 2001. The current examination covers the period from January 1, 2002, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2004. Material assets were valued and ownership verified. Liabilities were determined in accordance with the laws, rules and procedures prescribed by the state of Utah. The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, while also incorporating top-down, risk-focused examination techniques contemplated in the current draft version on Risk Focused Examinations of the NAIC Financial Condition Examiners Handbook. It included tests of accounting records and a review of the Organization's affairs and practices to the extent deemed necessary.

The Organization retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided requested working papers prepared in connection with its audits.

A letter of representation certifying management disclosed all significant matters and records was obtained from management and included in the examination working papers.

The examination relied on the findings of the actuarial firm employed by the Utah Insurance Department (Department) to verify claims unpaid, and unpaid claims adjustment expenses. The actuary tested the completeness of records and accuracy of the underlying data used to establish reserve amounts.

Status of Prior Examination Findings

Adverse findings noted in the prior report of examination were either adequately addressed by the Organization or are identified as repeat exceptions in this report. This examination was conducted under the association plan of the National Association of Insurance Commissioners (NAIC).

HISTORY

General

The Organization was issued a certificate of incorporation under the name of HCA Care of Utah, Inc., by the Office of the Lieutenant Governor of the state of Utah. The certificate was dated January 30, 1985, and authorized the issuance of 1,000 shares of stock at a par value of \$1.00. The Organization commenced business on January 1, 1986.

Effective October 1, 1986, ownership of the Organization was acquired by Equicor-Equitable HCA Corporation, a joint venture of Equitable Life Assurance Society of the United States, a New York Mutual Life Insurance Company and Hospital Corporation of America, a Tennessee corporation. On March 29, 1990, CIGNA CORPORATION, the ultimate parent, purchased the Organization. At December 31, 1994, 100% of the Organization's issued and outstanding shares of stock were owned by CIGNA HealthCare Inc. On July 3, 1995, CIGNA HealthCare, Inc. merged with CIGNA Health Corporation. Effective April 1, 1998, CIGNA HealthCare Corporation contributed 100% of the shares of the Organization to its wholly owned subsidiary, Healthsource, Inc., a New Hampshire corporation. Healthsource, Inc. became the sole shareholder of the Organization.

The Organization's articles of incorporation were adopted in January 1985 and amended on June 23, 1987, April 1, 1991, and September 1, 1993, changing the Organization's name to EQUICOR Health Plan of Utah, Inc., CIGNA Healthplan of Utah, Inc. and CIGNA HealthCare of Utah, Inc., respectively. The last amendment made as of June 1996 increased the aggregate number of shares issued to 100,000 shares of common stock with a par value of \$1.00.

No additional amendments to the articles of incorporation or bylaws were noted during the period covered by this examination.

Capital Stock

As of December 31, 2004, the Organization had 100,000 shares of common stock, which were authorized, issued and outstanding at a par value of \$1.00. Healthsource, Inc.

owns 100% of the issued and outstanding common stock of the Organization. The Organization is ultimately controlled by CIGNA CORPORATION.

Dividends to Stockholders

The Organization neither declared nor paid any dividends during the examination period.

Management

Directors of the Organization, as of December 31, 2004 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Razia Sultana Hashmi M.D. Simsbury, Connecticut	Medical Senior Director for CIGNA HealthCare
Vincent Lewis Shreckengast Northfield, Illinois	Accounting Senior Director for CIGNA HealthCare
Lawrence Ira Wolk M.D. Englewood, Colorado	Medical Senior Director for CIGNA HealthCare

Subsequent to the examination date, the following events occurred. In November 2005, Razia Sultana Hashmi M.D. resigned as a director, and he had not been replaced as of the conclusion of this examination.

In February 2005, Lawrence Ira Wolk, M.D. resigned as a director. He was replaced in April 2005 by Aslam K. Khan, M.D., M.M.. A biographical affidavit was not filed with the Department in accordance with U.C.A. 31A-5-410(1)(a)(ii) for Mr. Khan. During the course of the examination a biographical affidavit was filed with the Department.

Officers of the Organization as of December 31, 2004, were as follows:

<u>Name</u>	<u>Title</u>
Daryl W. Edmonds	President
Timothy Burton	Vice President, Real Estate-Operations Sr. Director
Leslie N. Campbell	Vice President, Clinical Operations-Vice President
Pascale E. DeRozario	Vice President, Contracting and Medical Economics-Director
Shawn M. Fitzgibbon	Vice President, National Contracting and Provider Services-Vice President
John P. Frey	Vice President, Bank Administration-Assistant Director
Glenn M. Gerhard	Vice President, Finance Director
Kathleen M. Hockmuth	Vice President, National Compliance Officer
Barry R. McHale	Vice President, Treasurer
Jeffrey L. Novak	Vice President, Real Estate & Purchasing-Vice President
Edward P. Pontanka	Secretary, Counsel
David M. Porcello	Vice President, CIGNA Treasury-Assistant Vice President
Edward M. Tanida	Vice President, National Contracting Department-Vice President
Michael R. Wise	Vice President, Medical Management-Business Financial Officer

During 2005, Jeffrey L. Novak, Edward M. Tanida, and Michael R. Wise resigned as officers. Barry R. McHale resigned as Treasurer and remained as Vice President. During 2005, the following five individuals were appointed as Vice Presidents: Karen E. Ferrell, Allan E. Hanssen, Robert D. Picinich, Joseph E. Turgeon and James V. Vasquez, Jr. Biographical affidavits were not filed with the Department in accordance with U.C.A. 31A-5-410(1)(a)(ii) for the five newly appointed officers. During the course of the examination biographical affidavits were filed with the Department.

In August 2005, Scott Lambert, was appointed as Vice President and Treasurer.

Biographical affidavits for a total of one director and ten officers were identified as not being filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii). The Organization is required to file biographical affidavits immediately after the appointment of a director or principal officer. In all cases, biographical affidavits were filed with the Department upon request of the examiner and no unusual items were noted in the affidavits. However, the Organization did not promptly notify the Department as required by the statute. Similar instances of non-compliance with this statute were noted in the prior examination report as of December 31, 2001.

According to minutes of the meetings of the board of directors, no committees were appointed during the examination period.

Conflict of Interest Procedure

The Organization had an established procedure for disclosing to its board of directors any material affiliation on the part of its officers, directors, or responsible employees, which is likely to conflict with the individual's official duties. Each person was required to file an annual statement disclaiming or disclosing any material conflict of interest. No exceptions to the established procedure were noted by the examination.

Corporate Records

Minutes of the meetings of the sole shareholder and minutes of the meetings of the board of directors were reviewed. The minutes indicated the Organization operates within the scope of its authority and the directors are properly informed of and participate in Organization affairs. Generally, at each annual board meeting, a detailed report of investment transactions since the previous meeting was presented and approved.

During the 2000 legislative session, U.C.A. § 31A-8-204 (g) was added and requires that articles of incorporation of an organization having no members state how directors and officers will be selected and removed. The Organization has not revised their articles to include this information.

The report of the examination of the Organization generated by the Department as of December 31, 2001, was distributed to the board of directors on October 7, 2003, in accordance with U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Organization was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

Surplus Debentures

The Organization has one outstanding surplus note in the principal amount of \$6,770,000, with accrued interest of \$3,488,371, due to CIGNA Holdings, Inc. as of December 31, 2004. Effective August 1, 2000, the Department approved discontinuation of accrued interest on the surplus note. Any repayments made under the surplus note will be applied to the outstanding principal amount and the holder will reduce the amount of accrued interest by an amount equal to the repayment of principal. The reduction of the interest amount by the holder will be an addition to the reduction of principal resulting from repayment and will constitute a forgiveness of that portion of the debt due under the surplus note. The surplus note cannot be amended without the prior written consent of the Utah Insurance Commissioner.

AFFILIATED COMPANIES

The following identifies the Organization's relationship within the holding company system and with its parent:

CIGNA CORPORATION
CIGNA Holdings, Inc.
Connecticut General Corporation
CIGNA Health Corporation
Healthsource, Inc.
CIGNA HealthCare of Utah, Inc.

Transactions with Affiliates

The following identifies the Organization's management and administrative agreements with affiliates, which define and control various aspects of the Organization's transactions and operations:

- Management Services Agreement, effective January 1, 1994, with CIGNA Health Corporation provides management services, premium billing and collection.
- Investment Advisory Agreement, effective March 1, 1995, with TimesSquare Capital Management, Inc. (formerly CIGNA Investments, Inc.), provides investment advisory services.
- Dental Consultation Agreement, effective October 1, 2000, with CIGNA Dental Health, Inc. provides dental consultations with respect to select dental cases.
- CIGNA Health Access Premium Billing Authorization, effective June 1, 1996, with Connecticut General Life Insurance Company, facilitates the use of single premium billing for customers using the CIGNA Health access product.
- Intracorp Service Agreement, effective January 1, 2001, between International Rehabilitation Associates, Inc. and Connecticut General Life Insurance Company, provides the Organization and affiliates with services regarding the Health Information Line and Centralized Transplant Case Management.
- Consolidated Federal Income Tax Agreement, effective April 1, 1982, with CIGNA CORPORATION, facilitates the filing of consolidated federal income taxes as an affiliated group.

In addition, the Organization maintained the following affiliate provider agreements:

- Network Access Agreement, effective June 12, 2001, with CIGNA CORPORATION and affiliates, allows participating HMO's to utilize networks of participating providers of other participating HMO's.

- Agreement for Provision of Mental Health and substance abuse, effective January 1, 1990, with CIGNA Behavioral Health, Inc., provides services to participating affiliated health plans.
- Participating Pharmacy Agreement, effective October 1, 1994, with Tel-Drug Inc., and affiliates, provides services to participating affiliated health plans. Effective January 1, 2005, this agreement was superceded and replaced by the Participating Mail Order Pharmacy agreement. This new agreement provides mail order pharmaceutical services to participating enrollees of affiliated health plans.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Organization's size is between \$175,000 and \$200,000. The Organization had fidelity coverage with a single loss limit of \$5,000,000, as of December 31, 2004.

The Organization was also a named insured under policies providing property and liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization had no employees and thus had no employee benefit programs or life and health insurance plans for employees.

STATUTORY DEPOSITS

The following security was held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Organization.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
Utah	US Treasury Note	\$ 560,000	\$ 575,551

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2004, the Organization provided health care services including basic physician and hospital services, emergency room treatment, mental health and substance abuse treatment, and preventive health and well-baby care. The policy forms issued during the examination period were consistent with Department approved forms.

Underwriting consisted of criteria requirements and eligibility guidelines within the Organization's covered services. The Organization's risk retention limit was \$250,000. The Organization was reimbursed 80% by its affiliate, Connecticut General Life Insurance Company, for risks exceeding the retention limit.

Territory and Plan of Operation

The Organization is licensed to operate as an HMO in the state of Utah. The Organization serves the counties of Box Elder, Davis, Emery, Juab, Millard, Morgan, Salt Lake, San Pete, Sevier, Summit, Tooele, Utah, Wasatch, and Weber.

The Organization's functions and operations in Salt Lake City, Utah, consist of sales and service of new and existing accounts, clinical case management, provider contracting and service, and limited provider data management functions. Accounting operations are conducted at the regional offices in Phoenix, Arizona. Claims administrative functions are performed in Visalia, California and Sherman, Texas. Products and services are primarily distributed through independent producers (brokers). CIGNA CORPORATION has a sales employee work force of approximately 450 agents, and approximately 300 of those agents are appointed in Utah who work with independent brokers.

As of December 31, 2004, the Organization contracted with approximately 2,800 providers to provide medical care services to its members. The Organization's provider contracts allowed for payments through capitation and on a Fee-For-Service (FFS) basis. The contracts referenced fee schedules to control provider costs. In addition to provider contracts, the Organization contracted with ancillary providers, group practices, health practitioners, hospitals, managed care and skilled care facilities.

Advertising and Sales Material

The Organization did not advertise the Utah plan at a local level, and it had no local advertising policy or budget. Advertising of affiliate HMO plans was performed at a national level by CIGNA Health Corporation.

Treatment of Members

Formal procedures to handle written complaints were in place within the Organization. During the examination period, four complaints were filed with the Department. All of the complaints were resolved and closed. To maintain control over member complaints, the Organization has complaint and grievance procedures, which are categorized and structured among four committees by location at the parent company level: Quality Care – Houston, Texas; Quality of Service – Houston, Texas; Member Appeals – Scranton, Pennsylvania; and Provider Appeals – Houston, Texas.

The Organization's practices regarding a complaint resolution body or grievance appeal board are to allow a CIGNA employee of the parent (non-medical or senior staff) to be a representative of the Member Appeals Committee. U.C.A § 31A-4-116(1) states, "If an insurer has established a complaint resolution body or grievance appeal board, the body or board shall include at least one consumer representative." The Organization's practice is not in compliance with U.C.A. § 31A-4-116(1).

The Organization's resources used for complaint resolution and appeals are located outside of Utah. This is not in compliance with U.C.A. § 31A-8-401, since the committee structures at the parent company level do not allow enrollees to participate sufficiently in matters of policy of the Organization.

REINSURANCE

Assumed

The Organization neither maintained nor entered into any assumed reinsurance arrangements during the examination period.

Ceded

As of December 31, 2004, the Organization maintained a ceding agreement with its affiliate Connecticut General Life Insurance Company. This affiliate was authorized to conduct business in the state of Utah. Under provisions contained in the agreement, the Organization was reimbursed 80% of the excess retention limit of \$250,000 for hospital services per member per calendar year.

ACCOUNTS AND RECORDS

The Organization's accounting system was maintained electronically on a general ledger, sub-ledgers, journal registers and other computerized reports created from source documents. Most of the Organization's accounting functions and procedures were maintained on electronic data processing systems, owned and operated by its parent and affiliate companies located at the Organization's office in Bloomfield, Connecticut.

An examination trial balance was prepared from the Organization's computerized general ledger as of December 31, 2004. Account balances were traced to the annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

The 2004 Annual Statement jurat page, filed with the Department, reported former officers and an actuary, which were not consistent with the names of those elected in the Board meeting minutes. The jurat page was not prepared according to the NAIC Quarterly and Annual Statement Instructions.

U.C.A § 31A-4-113 requires each authorized insurer to file a true statement of its financial condition and affairs as of December 31st, of the preceding year in accordance with the Annual Statement Instructions and the Accounting Practices and Procedures manual published by the NAIC. According to the NAIC Annual Statement Instructions, a statement is not considered filed unless the information therein is complete and accurate.

FINANCIAL STATEMENTS

The following financial statements are included in the examination report:

BALANCE SHEET as of December 31, 2004

SUMMARY OF OPERATIONS For the Year Ended December 31, 2004

RECONCILIATION OF CAPITAL AND SURPLUS - 2002 through 2004

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

CIGNA HEALTHCARE OF UTAH, INC.
BALANCE SHEET
as of December 31, 2004

ASSETS

	<u>Amount</u>
Bonds	\$ 3,411,522
Cash and short-term investments	2,520,300
Investment income due and accrued	39,889
Uncollected premiums and agents' balances in the course of collection	376,995
Receivables from parent, subsidiaries and affiliates	111,094
Health care and other amounts receivable	156
Total assets	<u>6,459,956</u>

LIABILITIES

Claims Unpaid	1,719,069
Unpaid claims adjustment expense	72,694
Premiums received in advance	808
General expenses due or accrued	100
Current federal and foreign income tax payable and interest thereon	78,686
Net deferred tax liability	1,094,824
Amounts due to parent, subsidiaries, and affiliates	237,562
Escheat liabilities and commissions payable	14,699
Total liabilities	<u>3,218,442</u>

CAPITAL AND SURPLUS

Common capital stock	100,000
Gross paid in and contributed surplus	6,225,614
Surplus notes	6,770,000
Unassigned funds (surplus)	(9,854,100)
Total capital and surplus	<u>3,241,514</u>
Total liabilities, capital and surplus	<u>\$ 6,459,956</u>

CIGNA HEALTHCARE OF UTAH, INC.
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2004

INCOME

Net premium income	\$ 11,982,408
Total revenue	<u>11,982,408</u>

BENEFITS

Hospital/medical benefits	4,935,376
Other professional services	515,671
Outside referrals	911,726
Emergency room and out-of-area	615,539
Prescription drugs	<u>1,701,623</u>
Total medical and hospital	8,679,935

EXPENSES

Claims adjustment expenses	887,177
General administrative expenses	936,171
Decrease in reserves for accident and health contracts	<u>(130,000)</u>
Total underwriting deductions	10,373,283
Net underwriting gain or (loss)	<u>1,609,125</u>
Net investment gains	192,350
Aggregate write-ins for other income or expenses:	
Other income	<u>871</u>
Net income or (loss) before federal income taxes	1,802,346
Federal and foreign income taxes incurred	<u>555,753</u>
Net income (loss)	<u><u>\$ 1,246,593</u></u>

CIGNA HEALTHCARE OF UTAH, INC
RECONCILIATION OF CAPITAL AND SURPLUS
2002 through 2004

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Capital and surplus, December 31, previous year	\$ 1,510,282	\$ 1,647,551	\$ 1,920,764
Net income	56,351	(173,307)	1,246,593
Change in net deferred income tax	(199,279)	(216,241)	(25,485)
Change in nonadmitted assets	(130,385)	22,252	99,642
Surplus adjustments: Paid in	200,000	800,000	-
Aggregate write-ins for gains or (losses) in surplus	210,582	(159,491)	-
Net change in capital and surplus for the year	<u>137,269</u>	<u>273,213</u>	<u>1,320,750</u>
Capital and surplus December 31, current year	<u>\$ 1,647,551</u>	<u>\$ 1,920,764</u>	<u>\$ 3,241,514</u>

NOTES TO FINANCIAL STATEMENTS

During the examination period, the Organization received several capital contributions from its parent, Healthsource, Inc. listed in the following table:

<u>Date of Capital Contribution</u>	<u>Amount</u>
December 31, 2001	\$ 400,000
February 27, 2002	\$1,000,000
August 15, 2002	\$ 200,000
October 9, 2003	\$ 800,000

The capital and surplus reported by the Organization in its December 31, 2004 financial statement blank was \$3,241,514. For examination purposes, no adjustments were determined necessary.

U.C.A. § 31A-8-209(1) requires the Organization to maintain a minimum capital in the amount of \$100,000. As defined by U.C.A. § 31A-17-601, the Organization's reported total adjusted capital was \$3,241,514, and its authorized control level risk-based capital (RBC) requirement was \$522,353, as of December 31, 2004.

SUMMARY OF EXAMINATION FINDINGS

Items of significance or special interest contained in this report are summarized below:

1. Biographical affidavits for a total of one director and ten officers were identified as not being filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii). The Organization is required to file biographical affidavits immediately after the appointment of a director or principal officer. Similar instances of non-compliance with this statute were noted in the prior examination report as of December 31, 2001. (HISTORY – Management)
2. The Organization was not in compliance with U.C.A. § 31A-8-204(g), which requires the articles of incorporation to state how the directors of the Organization shall be selected and removed. (HISTORY – Corporate Records)
3. The Organization's practices regarding a complaint resolution body or grievance appeal board are to allow a CIGNA employee of the parent (non-medical or senior staff) to be a representative of the Member Appeals Committee at the parent company level. This is not in compliance with U.C.A. § 31A-4-116(1). (INSURANCE PRODUCTS AND RELATED PRACTICES – Treatment of Members)
4. The Organization's resources used for complaint resolution and appeals are located outside of Utah. This is not in compliance with U.C.A. § 31A-8-401, since the committee structures at the parent company level do not allow enrollees to participate in matters of

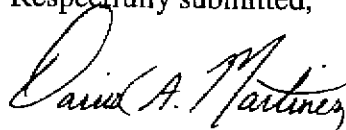
policy of the Organization. (INSURANCE PRODUCTS AND RELATED PRACTICES – Treatment of Members)

5. The 2004 Annual Statement jurat page, filed with the Department, reported former officers and an actuary, which were not consistent with the names of those elected in the Board meeting minutes. The jurat page was not prepared according to the NAIC Quarterly and Annual Statement Instructions, which does not comply with U.C.A § 31A-4-113. (ACCOUNT AND RECORDS)
6. U.C.A. § 31A-8-209(1) requires the Organization to maintain a minimum capital in the amount of \$100,000. As defined by U.C.A. § 31A-17-601, the Organization's reported total adjusted capital was \$3,241,514, and its authorized control level risk-based capital (RBC) requirement was \$522,353, as of December 31, 2004. (NOTES TO FINANCIAL STATEMENTS)

CONCLUSION

We acknowledge the assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Organization. In addition to the undersigned, Colette Reddoor, CFE, CPM, Assistant Chief Examiner and Joseph J. Wallace, ASA, MAAA, of Taylor-Walker and Associates, representing the Utah Insurance Department, participated in the examination.

Respectfully submitted,



David A. Martinez, CFE, AIE
Examiner in Charge
Utah Insurance Department